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RUEHKT/AMEMBASSY KATHMANDU 7390
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RUEHGZ/AMCONSUL GUANGZHOU 0001
RUEHHK/AMCONSUL HONG KONG 0391
RUEHKP/AMCONSUL KARACHI 2605
RUEHCI/AMCONSUL KOLKATA 0472
RUEHLH/AMCONSUL LAHORE 0105
RUEHBI/AMCONSUL MUMBAI 6996
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C O N F I D E N T I A L SECTION 01 OF 02 COLOMBO 001095

SIPDIS

DEPARTMENT FOR SCA/INSB

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SUBJECT: HUAWEI SRI LANKA: A MAJOR PLAYER WITH AN IRON
GRIP ON THE MARKET

Classified By: ACTING DEPUTY CHIEF OF MISSION MICHAEL PERKINS. REASONS
: 1.4 (B, D) REASONS: 1.4 (B, D)

¶1. (SBU) Summary. Chinese firms continue to make inroads into the Sri Lankan market, including into areas such as telecommunications infrastructure. The Sri Lankan telecommunications market has expanded rapidly, and telephone companies plan to expand into the newly freed conflict areas of the North and East. Huawei Telecommunications, a Chinese owned corporation, has worked diligently to corner the telecommunications infrastructure market in Sri Lanka. Huawei maintains a 33% sector share of existing infrastructure maintenance. Alcatel-Lucent and Ericsson are the two other major competitors, and each has a 33% sector share of existing infrastructure maintenance. Another Chinese company ZTE has a tiny 2% market share. Huawei Sri Lanka is expanding aggressively into the new infrastructure market in the North and East, where they own more than 75% market share. Alcatel-Lucent and Ericsson are not major players in the new infrastructure market, and they seem disinterested in increasing their market share. End Summary.

HUAWEI HAS A STRONG LOCAL PRESENCE

¶2. (SBU) Huawei currently has more than 300 permanent employees located in three primary offices in Colombo, Kandy, and Galle. More than 70% of its local staff are Sri Lankans.

Huawei supplements its permanent workforce with a large number of Sri Lankan sub-contractors and temporary duty Huawei engineers from its offices in Bangkok and Kuala Lumpur. Huawei Sri Lanka has a robust marketing arm which seems to do a yeoman's jobs obtaining new business for the company. The Huawei General Manager for Marketing and New Development recent advised us that Huawei hopes to have more than 85% of the new infrastructure market by the beginning of 2010, as well as a larger share of the existing infrastructure maintenance market.

¶3. (SBU) Huawei has adeptly maneuvered itself into the top spot in terms of telecommunications infrastructure support in Sri Lanka. No other competitor comes close to matching the breadth and width of Huawei's operations in the country. Huawei works with all Sri Lankan fixed line and mobile service providers. It has a monopoly on support to Dialog

Mobile and Mobitel 3G infrastructure and splits 2G infrastructure support with Alcatel-Lucent and Ericsson. Huawei's largest recent infrastructure project was the construction of mobile newcomer Bharati Airtel's network. Huawei built 100% of their infrastructure and even built into their contract a revenue sharing agreement which sends a small percentage of each Airtel call on to its coffers. Oddly enough, major competitors Alcatel-Lucent and Ericsson seem lackluster about Sri Lanka and there are no indications they plan to mount a challenge in the new infrastructure sector.

14. (SBU) While fixed line and mobile service providers have seen their profits dwindle over the past 18 months, Huawei has seen record profits as the sector continues to expand its infrastructure which also increases the demand for maintenance of existing infrastructure. Huawei has also expanded its support to the Code Division Multiple Access (CDMA) sector and has entered into relationships to expand and maintain infrastructure with CDMA players Sri Lanka Telecom, Suntel, and Lankabell.

HUAWEI MOVES INTO THE NORTH AND EAST

15. (SBU) Huawei is working closely with all major fixed line and mobile telecommunications providers to establish development plans for northern and eastern Sri Lanka, which were conflict zones until the May 2009 end of Sri Lanka's civil war. Plans for expansion into these areas have been submitted to the Sri Lankan Telecommunications Regulatory

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Authority for approval. Huawei is optimistic it will claim the overwhelming majority of new business as well as the after the fact maintenance of the networks for the north and east. Chinese competitor Zhong Xing Telecommunications Company (ZTE) is aggressively working to chip away at Huawei's advantage in new and existing infrastructure although the company has had little success. ZTE was involved in a quality control flap with mobile provider TIGO in 2006 which left it with a damaged reputation and less than 2% of the overall telecommunications infrastructure market in Sri Lanka. Huawei executives do not believe ZTE can challenge it for supremacy in Huawei equipment is sometimes suspect and the quality of their work is often questionable. Quality concerns do not seem to be hindering its business model. Some have speculated that Huawei has been assisted by the Chinese Embassy, but we could not confirm whether these suspicions are well founded.

17. (SBU) Huawei is a strong company, and our sense is that they have been able to develop their market share through normal business practices. That said, the Chinese Embassy has been able to assist through arranging appointments and assistance normally provided by an Embassy. In addition, Huawei's rise has also been helped by the excellent relationship between the Sri Lankan and Chinese government. Huawei Sri Lanka's robust business presence and significant market-share is in keeping with the Chinese outlook to involve itself in all important facets of the marketplace. If Chinese involvement in Sri Lanka is indeed strategic, and it likely is, Huawei's success is a win-win for China. End Comment.

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